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Central intelligence Agency



## DIRECTORATE OF INTELLIGENCE

10 October 1985

Peru: Status of Debt Repayments

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## Summary

Although we lack precise figures on Peru's debt to communist countries—it is somewhere between \$1 and \$2 billion and is owed primarily to the USSR—fairly accurate figures are available on Peru's scheduled and actual payments on this debt in 1984 and the first half of this year. The record of payments shows that there was a slight improvement in Peru's performance in servicing its debt to communist countries between 1984—when it met 18 percent of its scheduled payments to these countries—and the first half of 1985—when it paid 22 percent of scheduled payments.

By contrast, there was significant slippage over the same period in Peru's servicing of its debt to the two main groups of Western creditors—Western governments and agencies and international organizations in one group and Western bankers in the other. Peru met 51 percent of its obligations to the first group in 1984 but only 36 percent in the first half of 1985. The bankers fared even worse, receiving 16 percent of scheduled payments from Peru in 1984, but only 2 percent in the first half of 1985.

Any discussions with the new Garcia administration about the improvement in Peru's servicing of its debt to communist

This memorandum was requested by the Deputy Assistant Secretary of State for Inter-American Economic Affairs. It was prepared by of the Office of African and Latin American Analysis and coordinated with the Office of Global Issues and the Office of Soviet Analysis. This analysis is based on information as of 30 September 1985. Comments and questions may be directed to the Chief, South America Division, ALA, on

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countries in the first half of 1985 as against the comparative slippage in its debt servicing to Western creditors and bankers would be complicated by the fact that payments to communist countries have been in goods while Western creditors insist on cash. Pointing to the disparity in an effort to persuade Peru to pay more of its debt to Western creditors could in fact backfire--Garcia for his part could point to the communist countries' willingness to accept payments in goods in an attempt to convince Western creditors to follow suit.

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Background

Since the 1970s, Peru has increasingly relied on Western bankers to finance new projects and balance of payments deficits; debts incurred with the USSR and other communist countries were primarily related to purchases of military hardware. Based on official data, Peru's debt rose from \$9.2 billion in 1979 to an estimated \$13.5 billion last year and debt servicing obligations increased from \$1.7 billion to \$2.5 billion during the same period (Chart). The debt buildup and Peru's stagnant exports caused the ratio of debt service to exports to increase steadily to 76 percent during 1984. Nonetheless, debt repayment obligations were generally met until mid-1984.

With domestic political pressure building against austerity, Lima unilaterally stopped paying interest to foreign bankers in July 1984. According to US Embassy reporting, Peruvian officials claimed that the general strike in June 1984 halted government tax collection and that the Central Bank could not make interest payments without violating targets under its IMF agreement. By September, however, Peru became ineligible to draw further on its standby loan because of an excessive government deficit, and payments have been sporadic ever since.

Although the Belaunde government made token payments to Western creditors after the turn of the year--and reached formal agreement with Moscow allowing Peru to continue repaying part of its \$1-2 billion debt to the USSR in goods--arrearages mounted by another \$1 billion during the first half of the year and interest payments fell past due by more than 180 days, one of the criteria for a declaration of value-impaired by US regulators.

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The Record and What it Shows
We believe that data available from Peru's Central Reserve Bank provide an accurate record of Peru's recent debt servicing performance. These figures (see Table 1) show that in 1984 Peru made actual debt payments of approximately \$51 million (\$35 million in principal and \$16 million in interest payments) to communist countries, almost all of which was in the form of goods. These payments constituted 18 percent of scheduled payments to communist countries in 1984. In the first half of this year, Peru made actual debt payments—again primarily in goods—of \$63 million to communist countries (\$60 million in principal and \$3 million in interest payments). These actual payments constituted approximately 22 percent of scheduled payments to communist countries over the period.
By the way of comparison, in 1984 Peru paid approximately \$573 million (\$214 million in principal and \$359 million in interest payments) to Western creditors, mainly in cash. Western governments and agencies and international organizations received some \$213 million (\$53 million in principal and \$160 million in interest payments) and bankers were paid \$151 million (\$4 million in principal and \$147 million in interest). These payments represented 51 percent of 1984 scheduled payments to Western governments, agencies, and international organizations, and 16 percent of scheduled payments to bankers. In the first half of 1985 Peru actually paid \$126 million (\$67 in principal and \$59 million in interest payments) to Western creditors, again in cash. Western governments and agencies and international organizations received approximately \$65 million (\$29 million in principal and \$36 million in interest payments) and bankers \$6 million (\$1 million in principal and \$5 million in interest payments). These payments constituted 36 percent and 2 percent of scheduled payments to these lenders, respectively, over the January-June 1985 period.
Garcia's Approach
We do not yet have Central Reserve Bank compilations on debt servicing payments made since President Alan Garcia took office on 28 July 1985.
inaugural address, Garcia in effect formalized the Belaunde government's repayment policy by declaring a limit on debt servicing to 10 percent of export earnings over the next 12 months. While the new President has yet to formulate concrete debt repayment schedules, US Embassy reports suggest he may dribble out payments to multilateral institutions and then to government donors. Lima will probably pay a significant part of the \$230 million it owes to communist countries over the next 12 months with
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goods. Based on the same repayment allocations made during the January-June 1985 period, we estimate Peru's past due payments will increase another \$2.1 billion in the next year (see Table 2).	051/4
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US bankers, in our view, probably will receive only negligible payments in the near term and have already written off some of their Peruvian exposure. Although the potential for confrontation exists, the Garcia government will probably search for methods to make debt payments in goods to Western creditors to avoid becoming an international financial pariah. Moreover, payments in goods fit well with the President's publicized economic plans because they will help economic development,	
believe Garcia will point to Soviet willingness to accept goods as payment for debt in his attempts to convince Western creditors to follow suit.	7 05)//
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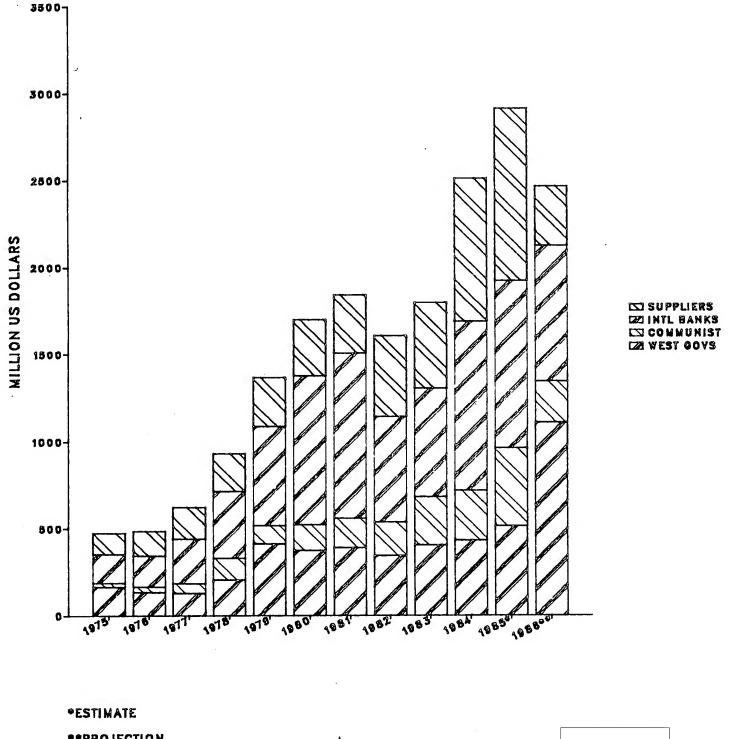
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## CONFIDENTIAL

## PERU: RISING ANNUAL DEBT SERVICING BURDEN



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Table 1

Peru: Mounting Payments Arrearages

(US\$ million)

	1984		
	Scheduled Payments	Actual Payments	Arrearages
Total	2,492	624	1,868
Principal Interest	1,627 865	249 375	1,378 490
Western Governments and Agencies and International Organizations*	420	212	
Principal Interest	249 171	213 53 160	207 · 196
International Banks	967	151	11 816
Principal Interest	615 352	4 147	611 205
Communist Countries	285	51	234
Principal Interest	230 55	35 16	195 39
Suppliers**	820	209	611
Principal Interest	533 287	157 52	376 235

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Table 1 (Continued)

	January-June 1985		
•	Scheduled Payments	Actual Payments	Arrearages
Total	1,168	189	
Principal Interest	691 487	127 62	979 564 425
Western Governments and Agencies and International Organizations*	183		425
Doinain	103	65	118
Principal Interest	84 99	29 36	55 63
International Banks	339	6	333
Principal Interest	152 187	1 5	151 182
Communist Countries	281	63	218
Principal Interest	241 40	60 3	181 37
Suppliers**	365	55	310
Principal Interest	214 151	37 18	177 133

\*Most government debt is Paris Club debt.

\*\*Most of the major suppliers are arms manufacturers and will likely be paid through barter agreements. Total inst to suppliers would amount to \$1.6 billion if we add the \$650 million purchase of 26 Mirage 2000s, \$100 million due to be paid next January,

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Source: Central Reserve Bank of Peru

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Table 2

Peru: Payments Due in the Next 12 Months

(US\$ million)

	Scheduled Obligations	Estimated Repayments	Arrearages
Total	2,456	312	2,144
Western Governments and Agencies and Int'l			
Organizations	1,103	109	994
International Banks	779	9	770
Communist Countries	232	103	129
Suppliers	342	91	251

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